

BUSINESS 478

Section D 100

Case Synopsis: McDonald's



Submitted to: Jerry Sheppard

Submitted by: Xiaoyuan Pu

Janice Wong

Zengyuan Tang

Frank Fang

Jason Yu

Date of submission: November 18, 2013

HISTORY OF COMPANY

In 1940, McDonald's began as a Bar-B-Q restaurant before it was operated as a self service drive-in restaurant. Starting from 1948, Richard and Maurice McDonald operated their first McDonald's restaurant in San Bernardino, California. Initially they sold limited items such as hamburgers, cheeseburgers, soft drink etc. After a few years, Ray Kroc, a seller of Multimixer milkshake, joined the business as a franchisee agent in 1954. He was surprised by the operating model of restaurant and bought the business interest of McDonald's brother. The first shop named McDonald's Corporation was opened at 1955. By 1965, Ray Kroc expanded the number of shops over 700 throughout the United States ("McDonald's History," n.d.).

After McDonald's went public with the stock price of \$22.5 per share in 1965, it started to expand internationally. It mainly focuses on United States market but it also operates the stores in different countries. The first store outside US was located in Toronto, Canada in 1967 ("McDonald's History," n.d.). Through the 1980s, the company continued opening new franchise stores and provided innovative menus. However, McDonald's faces challenges of unhealthy image and culture differences. Some countries view McDonald's as a symbol of American economic and cultural chauvinism (James, 2009). By recreating its image, McDonald's becomes one of the leading global foodservice retailers nowadays.

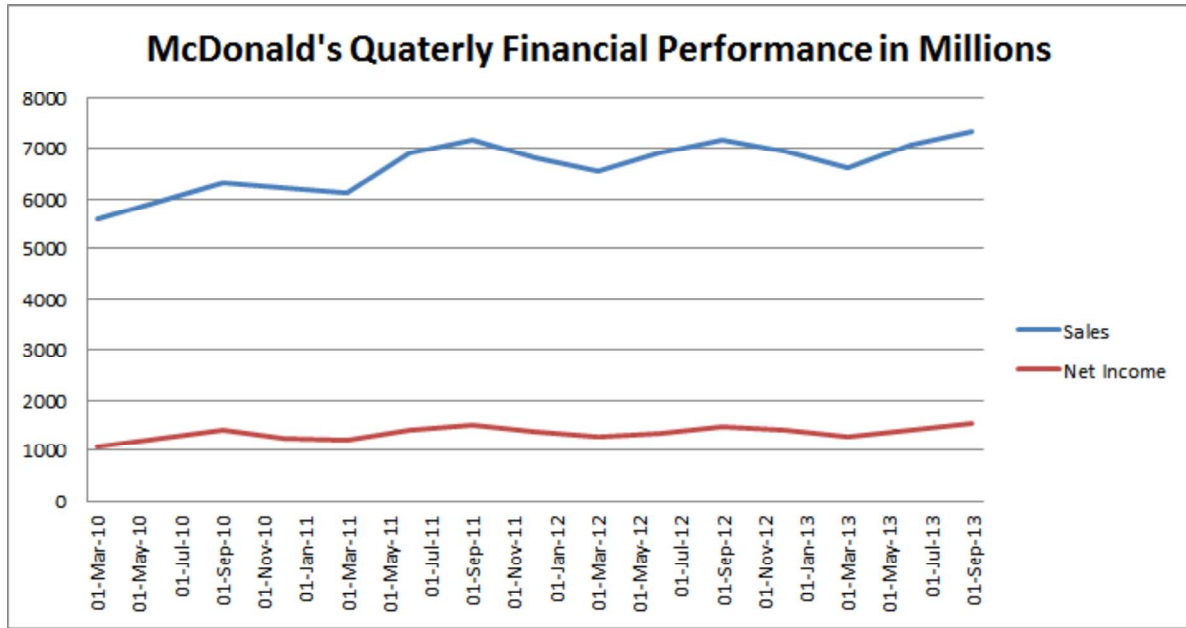
CURRENT SITUATION

Having the well-developed reputation for selling low-priced, high quality and delicious food, McDonald's has attracted more and more customers to purchase its products internationally. Today, it has more than 34,000 restaurants in the world with around 1.8 billion employees serving around 68 million customers in over 119 countries (McDonald's Corporation, 2013). More than 80% of the stores are set by franchising and licensing which are operated by local people (2013). As one of the largest food retailers, McDonald's operates not only its own brand, but also other brands as a result of divestment and franchise.

Some examples are Aroma Cafe, Boston Market, Chipotle, Donatos Pizza and Pret a Manger (Bailey, n.d.).

McDonald's is the most recognizable brand nowadays. In a survey conducted by a marketing company, of about 7,000 respondents in the U.K., Germany, Australia, India, and Japan, more of them could identify the golden arches of the McDonald's logo than could identify the Christian cross (McGrath, n.d.). McDonald's is known for serving various food choice including hamburgers, fries, soft drinks, and dessert. Counter service as well as drive thru service is provided. For the food and service, McDonald's has won several awards, such as 2011 Most Innovative Food Companies, 2012 #7 Most Valuable brand ("Awards & Recognition," n.d.). Another credit for McDonald's is that in July McDonald's UK became the first ever commercial partner to sponsor an Olympic Volunteer Programme (McDonald's Corporation, 2013).

McDonald's has been making a lot of contributions to maintaining its competitiveness in recent years. In 2012, 750 new restaurants were opened in APMEA region, of which over 250 were opened in China. In the meanwhile, McDonald's launched 250 new restaurants in the Europe. In terms of the domestic market, over 900 existing outlets were remodeled during 2012 (McDonald's Corporation, 2013). As a result, it achieved \$27,567 million revenues and \$5,465 million net income in 2012 fiscal year (2013). Compared to 2011 fiscal year, McDonald's experienced a 2% increase in revenue, and slight decrease in net income. The graph from next page shows McDonald's quarterly sales and net income performance in the last three years. While the sales show an increasing trend between 2010 and 2013, the net income maintains in a relatively narrow scale.



Note. Adapted from “McDonald’s Corporation: 2012 Annual Report,” 2013. Retrieved from <http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Investors/Investor%202013/2012%20Annual%20Report%20Final.pdf>

McDonald’s also faces a lot of competitors in the fast food industry, such as Burger King, Kentucky Fried Chicken (KFC), Subway, Taco Bell, Pizza Hut, and Wendy’s. As more of existing and new competitors in this field who offer lower prices to strive for market shares, it would cause adverse effect on McDonald’s domestic and international businesses.

GENERAL ENVIRONMENT

Demographic Segment

McDonald’s provides services to different age groups, and it mainly focuses on children and teenagers. From the world youth data sheet 2013, the number of population for age 10-24 is 1,809.6 million in 2013. There is a prediction that the youth age will increase to 1,884.9 million in 2050. The increase in the number of children and teenagers indicated that there would be more potential customers in the future that affect the profit earning (“The World’s Youth 2013 Data Sheet,” 2013).

Political/Legal Segment

Being a multinational company, McDonald's international operations are strongly influenced by the local government policies and regulations. For example, several governments pose regulations on food safety and product quality ("Food Safety," n.d.). Concerning people's health issues, President Obama required restaurants to post calorie information, thus McDonald's posted their nutrition information on the menus (Strom, 2012).

Economic Segment

In 2011, the increase in the price of food commodity and energy has pushed up the cost for beef and bread, which will decrease the quarterly margin. McDonald's predicts that the food price inflation are expected to rise between 4% and 4.5% in the United States and Europe, which would cause operating margin falling to 17.7% in 2011 (Reuters, 2011).

Socio-cultural Segment

Currently, as the increasing awareness of healthy lifestyle, the public is less willing to have fast food. According to World Health Organization's report, the fast food is considered as a driver for the cancer (Han, 2008). Under this circumstance, Subway attracts more customers with its low-calorie sandwich. This trend of customer preference may make McDonald's lose its market position and competitive advantage.

Technological Segment

In order to increase the demand of customers, the fast food industry intends to use online website and TV, radio and newspaper advertising as the main tool to promote themselves. With the popularity of social media tools such as facebook, fast food restaurants are able to increase the brand awareness. In addition, as the adoption of Total Quality Management System, the fast food industry experiences a huge improvement in the operation efficiency and quality assurance.

Global Segment

While the western culture is expanding globally, the American lifestyle, particularly the fast food restaurants, is accepted by the individuals worldwide. For example, in Vietnam, over half of the populations in this country are youths who are eager to try new foods and brands. It would help

McDonald's in serving larger market (Hodal, 2013). As an increasing acceptance is observed in the emerging market, the global market would be an opportunity for the fast food industry in the foreseeable future.

INDUSTRY ENVIRONMENT

Threat of New Entrants

There is a medium level in terms of threats of new entrants for McDonald's. On the one hand, due to the low initial capital requirement, the entry barrier to start up a fast food restaurant is quite low. Thus, it is easier for small entrepreneurs to enter into the market. Consequently, they would lower the product prices to achieve competitiveness in the market. In turn it would lead to the lower profit margin for McDonald's. (UICCreativeSolutions, 2013). On the other hand, due to McDonald's solid brand name and standardized products, the new entrants would be faced with several entry barriers such as the economies of scale and the access to distribution; as a result, it would be extremely difficult for them to directly compete with McDonald's (Ivanova, 2011).

Bargaining Power of Suppliers

The bargaining power of suppliers is moderate. Since McDonald's aims to keep consistency regarding the food and beverage provided among the restaurants globally, they need to use the same products from the same suppliers. Therefore, the suppliers have big impact on the company's success in the market (Ivanova, 2011). However, there are numerous substitute suppliers that McDonald's can replace with quite low switching costs (UICCreativeSolutions, 2013).

Bargaining Power of Buyers

Although the prices of products in McDonald's tend to be low, the bargaining power of buyers is still relatively high. One reason is that there are too many competitors and substitutes in the market that allow customers to switch to different restaurants without incurring additional cost. Moreover, customers have become willing to demand healthy food and drinks. After a documentary film called "Supersize Me"

came out in 2004 that showed how unhealthy food that McDonald's had been providing, the buyers' perception of McDonald's has been negatively influenced ("McDonald's Case Analysis," 2013).

Threat of Substitute Products

There is a very strong threat of substitute products for McDonald's. Since fast food is primarily associated with high calorie and unhealthy lifestyle, consumers are always able to find healthier product with the similar price compared to the products of McDonald's (Ivanova, 2011).

Industry Rivalry

McDonald's operates in a very high competitive industry. They are competing with different rivals in different sectors. The company directly competes with Burger King and KFC by offering the similar products and services in the fast food sector. It also introduces premium customized coffee to compete with Starbucks in the beverage sector ("McDonald's Case Analysis," 2013). Although McDonald's has more than 32,000 restaurants worldwide and serves over 60 million people every day, numerous competitors from fast food market, as well as non-fast food market, can still cause intense competition for the company.

STRATEGIC CHALLENGES

Maintain Profitability in the Competitive Market

With increasingly intense competition, McDonald's faces challenges to maintain profitability. Subway has run past McDonald's by opening more stores around globe than McDonald's since 2010 (Morran, 2013). Also, Subway has beaten McDonald's to become the most popular lunch spot for workers (Wong, 2013). Furthermore, in terms of the market in China, KFC is considered to be the most recognizable brand compared to McDonald's (ChinaAbout.net, 2013).

Difficulty in Developing APMEA Countries

McDonald's met intense challenge in developing APMEA countries in 2013. In early this year, the APMEA segment sales was down 3.3% and 0.3% in the first two quarters due to the ongoing weakness in Japan and negative results in China (Brook, 2013). In the last three months, the APMEA

segment sales declined 1.9% in July, 0.5% in August, and 2.8% in October (2013). Based on the results, McDonald's postponed new restaurant opening in emerging markets such as China (Baertlein, 2013). The underperformed APMEA countries pose great threats to McDonald's globalization strategy.

Increasing Healthy Food Demand

As people pay more attention on their health issues, demands for healthy food are also increasing. Although McDonald's is one of the most recognizable brands, it also faces a challenge of the perception of unhealthy food. The fast food provided by McDonald's, containing high sugar, high calorie and low nutrition, received harsh criticism about health problems, such as obesity, heart disease, hypertension and even cancer (Irani, 2008). Due to the unhealthy food image, potential customers are more willing to turn to healthier options.

Political and Legal Policies in Foreign Countries

While expanding into other foreign countries, McDonald's is exposed to the political and legal issues, in particular, in the emerging market. McDonald's will face an increasing number of regulations regarding the food safety and franchisee business. For example, in 2011, "Food Safety Standard of Fast-food Service" was issued in China. The standard was to regulate the employment, store address selection and management personnel (IBISWorld, 2013). Such regulations may incur unexpectedly additional cost for McDonald's. Therefore, McDonald's needs to pay attention on the new issued policy in various regions and faces the challenges raised from the updated regulations.

Price Inflation and Cost Pressure

In 2011, there was a rising in the cost of wholesale and retail food such as beef, bread and others leading to the 2% fall in the share price of McDonald's (Reuter, 2011). The price inflation forced McDonald's to increase price by 2% to 3% to cover costs. Thus, McDonald's low cost strategy was challenged by the risk of price inflation. Also, since customers are sensitive to the price changes, there are potential threats of losing customers. The total revenue might be hurt if the accelerating price makes it difficult for the store to expand (Tseng, 2011).

REFERENCE

- Awards & Recognition. (n.d.). Retrieved from http://www.aboutmcdonalds.com/mcd/our_company/awards_and_recognition.html
- Baertlein, L. (2013, October 21). *McDonald's forecasts tough fourth quarter*. Retrieved from <http://www.reuters.com/article/2013/10/21/us-mcdonalds-results-idUSBRE99K0BJ20131021>
- Bailey, D. (n.d.). *McDonald's looks to gather steam with coffee bar*. Retrieved from <http://www.mcspotlight.org/media/press/mc/s/reuters0204501.html>
- Brook, O. (2013, April 19). *McDonald's reports first quarter 2013 results*. Retrieved from <http://news.mcdonalds.com/Corporate/Press-Releases/Financial-Release?xmlreleaseid=123028>
- ChinaAbout.net. (2013). *Location strategy analysis of McDonald China*. Retrieved from <http://www.chinaabout.net/location-strategy-analysis-mcdonald-china/>
- Food Safety*. (n.d.). Retrieved from http://www.mcdonalds.ca/ca/en/food/making_informed_choices/food_safety.html
- Han, J. (2008, November). The business strategy of McDonald's. *International Journal of Business and Management*.
- Hodal, K. (2013, July 17). *McDonald's opens first branch in Vietnam*. Retrieved from <http://www.theguardian.com/world/2013/jul/17/mcdonalds-opens-first-restaurant-vietnam>
- IBISWorld. (2013). *Fast-food restaurants in China*. Retrieved from <http://clients1.ibisworld.com.proxy.lib.sfu.ca/reports/cn/industry/operatingconditions.aspx?entid=940>
- Irani, S. (2008, October 22). *15 reasons never to let anyone you love near a McDonald's*. Retrieved from http://ecosalon.com/15_reasons_never_to_let_anyone_you_love_near_a_mcdonald_s/
- Ivanova, E. (2011). *McDonald's company analysis*. Retrieved from <http://dc445.4shared.com/doc/nAYYRGF9/preview.html>
- James, R. (2009, October 28). *McDonald's abroad*. Retrieved from <http://content.time.com/time/world/article/0,8599,1932839,00.html>
- McDonald's Case Analysis*. (2013, November 16). Retrieved from <http://www.123helpme.com/mcdonalds-case-analysis-view.asp?id=166350>
- McGrath, J. (n.d.). *How McDonald's works*. Retrieved from <http://money.howstuffworks.com/mcdonalds.htm>
- McDonald's Corporation. (2013). Retrieved from <http://www.aboutmcdonalds.com/content/dam/AboutMcDonalds/Investors/Investor%202013/2012%20Annual%20Report%20Final.pdf>
- McDonald's History. (n.d.). Retrieved from http://www.aboutmcdonalds.com/mcd/our_company/mcdonalds_history_timeline.html

- Morran, C. (2013, August 21). *Subway now outnumbers 30 of the 50 largest fast food chains*. Retrieved from <http://consumerist.com/2013/08/21/subway-now-outnumbers-30-of-the-50-largest-fast-food-chains-combined/>
- Reuters, T. (2011, April 21). *McDonald's warns of higher food inflation*. Retrieved from <http://business.financialpost.com/2011/04/21/mcdonalds-warns-of-higher-food-inflation/>
- Strom, S. (2012, September 12). *McDonald's menu to post calorie data*. Retrieved from http://www.nytimes.com/2012/09/13/business/mcdonalds-to-start-posting-calorie-counts.html?_r=0
- The World's Youth 2013 Data Sheet*. (2013) Retrieved from <http://www.prb.org/Publications/Datasheets/2013/youth-datasheet-2013.aspx/>
- Tseng, N. H. (2011, January 21). *Three challenges to McDonald's growth*. Retrieved from http://money.cnn.com/2011/01/21/news/companies/mcdonalds_slowing_growth.fortune/
- UICCreativeSolutions. (2013). *McDonald's five forces*. Retrieved from <http://uiccreativesolutions.wikispaces.com/McDonald%27s+Five+Forces>
- Wong, V. (2013, April 18). *Subway tops McDonald's as No. 1 worker lunch spot*. Retrieved from <http://www.businessweek.com/articles/2013-04-18/subway-tops-mcdonalds-as-no-dot-1-worker-lunch-spot>